MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015 / 2016 SESSION

DAU5028 – AUDITING 2

(For Diploma Students Only)

3 MARCH 2016
9.00 a.m – 12 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 5 pages only excluding the cover page.
2. Answer **ALL** questions.
3. Please write your answer in the answer booklet provided.

QUESTION 1

(a) "MIA By-Laws (On Professional Ethics Conduct and Practice) states that a professional accountant is required to comply with five fundamental principles."

Required:

Explain the **FIVE (5)** fundamental principles of ethics. **(10 Marks)**

(b) The following are situations that may violate the MIA By-Laws, in each case, assume that the auditor is a partner.

i. Paula, an auditor, advertises in the national magazine that her firm does the audit for 15 out of the 42 construction companies in Malaysia. The advertisement also states that the average audit fee is lower than any other firms in the country. On top of that, she claims that all the auditors have more than 15 years' experience.

ii. Brian & Associates are currently planning for an audit of 2015 for their client, Suria Sdn. Bhd. Previously, the client has been unable to pay their 2013 and 2014 audit fees to Brian & Associates due to poor cash flow. The outstanding fees have reached RM 40,000.

Required:

Discuss whether the facts in any of the above situations indicate violations of the MIA By-Laws. If so, identify the nature of the violations.

(Note: You may use the table format as presented below to write your answer)

Violation of MIA-By Laws (Yes / No)	Explanation
(i)	
(ii)	

(6 Marks)

(c) Differentiate between self-review threat and familiarity threat. **(4 Marks)**

[TOTAL 20 MARKS]

Continued.....

QUESTION 2

(a) "It is important for an auditor to attempt to identify all related parties during the planning phase of the audit so that the auditor will be alerted for related party transactions during the course of the audit."

Required:

i. Define the term "related party" and "related party transaction". **(4 Marks)**

ii. Provide **THREE (3)** examples of related party and **THREE (3)** examples of related party transaction that a company may have. **(6 Marks)**

(b) Explain the following substantive test of transaction in sales and collection cycles.

(i) Existence
(ii) Cut-off
(iii) Valuation

(6 Marks)

(c) "Key segregation of duties is useful to prevent various type of misstatements, both intentional and unintentional."

Required:

Explain why purchasing function should be segregated from the requisitioning function and receiving function? **(4 Marks)**

[TOTAL 20 MARKS]

QUESTION 3

(a) Wilton Sdn. Bhd. is an electrical supplies manufacturer. It has factories across Malaysia and its customer base includes retailers as well as individuals, to whom direct sales are made through their website. The company's year-end is 31st December 2014. You are an external auditor of Jimmy & Co and are currently reviewing documentation of Wilton's internal control in preparation for the year end audit.

Wilton's website allows individuals to order goods directly, and full payment is taken in advance. Currently the website is not integrated into the inventory system and inventory levels are not checked at the time when orders are placed.

Continued.....

Goods are shipped via local couriers; however, they do not always record customer signatures as proof that the customer has received the goods. Over the past 12 months, there have been customer complaints about the delay between sales orders and receipt of goods. Wilton has investigated these and found that, in each case, the sales order had been entered into the sales system correctly but was not forwarded to the shipping department.

Wilton's retail customers undergo credit checks prior to being accepted and credit limits are set accordingly by sales ledger clerks. These customers place their orders through one of the sales team, who decides on sales discount level.

The company did not send monthly statement to customer and sales ledger clerks only reconcile the sales ledger control account at the end of December.

Required:

As the external auditor of Wilton Sdn. Bhd.,

(i) Identify and explain any **FOUR (4)** deficiencies or weaknesses in the sales system. **(8 Marks)**

(ii) Suggest **ONE (1)** internal control for **EACH** of the deficiency or weaknesses that you have identified. **(8 Marks)**

(Note: You may use the table format as presented below to write your answer)

Deficiency / Weakness	Internal Control

(b) There are two common types of confirmations are used to confirm balances of account receivables. Identify and explain the purpose of each of the confirmations.

(4 Marks)

[TOTAL 20 MARKS]

Continued.....

QUESTION 4

(a) Explain the function of the following documents that are normally found in the purchasing cycle.

(i) Purchase requisition

(ii) Purchase order

(iii) Payment voucher

(iv) Supplier's Statement

(8 Marks)

(b) Your firm has been appointed to audit the financial statements of Sky High Sdn. Bhd. for the year ended 31st December 2014. You have obtained and documented an understanding of internal control relating to the purchasing process at the maximum level. You have requested and obtained from Sky High Sdn. Bhd. several record of the company's property, plant and equipment including listing of addition of asset and disposal of asset.

Required:

(i) List out **FOUR (4)** types of property, plant and equipment transaction that may occur in the company. **(4 Marks)**

(ii) Identify **TWO (2)** substantive analytical procedures that you could use to verify the property, plant and equipment. **(4 Marks)**

(iii) Explain the substantive procedure to test the account balance for the addition and disposal of property, plant and equipment. **(4 Marks)**

[TOTAL 20 MARKS]

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QUESTION 5

(a) "The purpose to test the bank reconciliation is to determine whether client personnel have carefully prepared the bank reconciliation and to verify whether the client's recorded bank balance is the same amount as the actual bank balance."

Required:

Explain the audit procedures involve to test the bank reconciliation. **(10 Marks)**

(b) List out **FOUR (4)** unique characteristics of capital acquisition and repayment cycle. **(4 Marks)**

(c) Identify the audit procedures involve in testing the following assertion for shareholder's equity. **(6 Marks)**

(Note: You may use the table format as presented below to write your answer)

Audit Assertion	Audit procedure
i) Completeness	
ii) Occurrence	
iii) Valuation	

[TOTAL 20 MARKS]

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